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IN REPLY REFER TO

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September 26, 2003
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MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Planning and Performance of Contractor Purchasing System Reviews (CPSRs)

This memorandum clarifies and re-emphasizes existing audit guidance relating to the role of DCAA's auditors in the planning and performance of CPSRs. It clarifies guidance relating to DCAA auditors conducting separate audits of contractors' purchasing system internal controls. It also provides new guidance for the coordination of the audit scope on joint DCMA/DCAA purchasing system reviews.

Background

In response to the DoDIG recommendation in its November 6, 2002 report on DoD Oversight of Contractor Purchasing Systems, members of the Policy and Plans Directorate met with representatives of DCMA's Supply Chain Management Division to establish joint planning and coordination processes that will more effectively meet the needs of both organizations, avoid duplication, and effectively leverage the resources of both organizations for audits of contractor purchasing systems and related internal controls. As a result of the meeting, we have identified some process improvements for the annual audit planning process and individual contractor purchasing system reviews (CPSRs).

Guidance for the Coordination of Audit Planning

DFARS 244.3 states that the administrative contracting officer (ACO) is responsible for reviewing the contractor's purchasing system. It further states that members of other organizations, such as audit or program management activities should not conduct separate reviews of a contractor's purchasing system, but may participate in a review conducted for the ACO. These organizations may, if they suspect a problem, recommend that the ACO initiate a special review.

The DCMA CPSR team is responsible for performing Contractor Purchasing System Reviews for the ACO. The ACO in consultation with the CPSR team leader, local management council, and procuring contracting officer (PCO), conducts two sets of risk assessments. The first risk assessment will determine which contractors will require an on-site CPSR. Risk, as used in this context, means the Government's financial, quality, and delivery exposure posed by

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contractor operations. Having decided that a review is necessary, the team leader, in conjunction with the customer (ACO, PCO, and other cognizant Government personnel), will conduct a second risk assessment to determine the depth and scope of the review to be made. In most cases, an initial review should constitute a complete appraisal of the contractor's purchasing system. Later reviews may, if considered appropriate, constitute a complete appraisal of the contractor's purchasing system or be limited to those areas that the customer and the team leader determine necessary for adequate system analysis.

At major contractor locations, DCAA will continue to share its annual program plans with the cognizant ACO, including the need for evaluations of purchasing system internal controls. When discussing the annual program plan with the ACO, FAOs should inquire as to whether a CPSR has recently been performed and if DCMA has planned a CPSR at the contractor location during the period covered by the program plan. Where DCMA has planned a CPSR, but the scheduled CPSR does not coincide with DCAA's cycle for evaluating purchasing system internal controls, the FAO should, to the extent possible, adjust its schedule to perform the internal control evaluation as part of a joint DCMA/DCAA CPSR. The DCMA CPSR would normally cover many DCAA concerns regarding internal control objectives.

If a CPSR has not recently been performed and if there is no CPSR scheduled within the normal DCAA cycle for accounting or management system audits (see CAM 5-103), but the FAO believes a purchasing system internal control audit is required based on risk, the FAO should discuss those concerns with the cognizant ACO. Where the ACO agrees with those concerns, the auditor should perform a purchasing system internal control audit (not CPSR) in accordance with guidance set forth in CAM 5-600 and the next section of this memorandum regarding the coordination of audit scope on individual audits.

Where agreement is not reached with the ACO and the FAO believes that the Government is at risk, these concerns should be elevated to the regional office prior to any audit effort. The regional office should determine that the FAO purchasing system internal control audit is warranted and coordinate with the local and District DCMA management in gaining support for a joint DCMA/DCAA CPSR or individual audit of internal controls. If the regional office is unable to resolve the issue, the concerns should be elevated to DCAA Headquarters (Attn: PPD). FAOs should document their coordination with the ACO with respect to CPSRs and purchasing system internal control audits, and retain the documentation in their permanent files.

In order to enhance coordination of the DCMA annual CPSR plan and the DCAA purchasing system internal control audit plan, DCMA will re-emphasize with its purchasing analysts the existing requirement to provide its annual CPSR plan to the cognizant DCAA FAOs. (DCMA normally develops its annual plans in the 3rd quarter of each Government fiscal year, which coincides with DCAA's planning cycle.) This will facilitate the inclusion of effort to support DCMA CPSRs in the FAO's program plan. If FAOs have instances where DCMA's annual CPSR plans are not being shared, those instances should be elevated through regional channels for discussion with the DCMA District Office, and if needed, to DCAA Headquarters (Attn: PPD) for coordination with DCMA Headquarters.

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Guidance for the Coordination of Audit Scope on Individual Audits

To enhance coordination and planning of CPSRs, DCMA has committed to meet with the cognizant DCAA office a month before the scheduled CPSR when appropriate, to discuss the scope of the CPSR. This meeting, which may occur in person or via teleconference, will provide the auditor an opportunity to share the DCAA audit program for purchasing system internal controls with the DCMA purchasing analyst, discuss other relevant audits the FAO has performed (e.g., evaluations of estimating system and material management and accounting system internal controls), and discuss any other concerns DCAA may have relative to the contractor's purchasing system. This enhanced coordination will facilitate the planning of a CPSR which will address the concerns of both organizations, leverage the resources of both organizations, and preclude duplicative effort. FAOs should adequately document this coordination in the audit working papers.

Closing Remarks

Field audit office personnel should refer questions regarding this memorandum to their regional offices. Regions unable to answer, or with questions of their own, should contact Mr. John Galiatsos, Program Manager, Policy Programs Division, at (703) 767-2270 or e-mail at DCAA-PPD@dcaa.mil.

/Signed/

Robert DiMucci
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